APPENDIX I.

STATE LEGISLATION PROHIBITING BANK HOLDING COMPANIES FROM ACQUIRING NATIONAL BANKS' SHARES INHIBITS THE LATTERS' ACCESS TO CAPITAL.

At page 11, *supra,* of this brief, the statement is made that the effect of prohibiting bank holding companies from acquiring shares of national banks in a given state is to deprive such banks of access to capital on an equal basis. Nadler & Bogen, *The Bank Holding Company* (N.Y. Univ., 1959) pp. 35-7 is cited as authority for this statement. They compare bank holding companies and unit banks from the point of view of the stockholder. Although the quantitative data given by the authors are "spot" prices, its correlation with what could be anticipated from the qualitative analysis renders it useful for this purpose. This data supports the statement made in the reply for the following reasons:

1. In addition to stating the qualitative reasons why bank holding company shares are much more readily marketable than those of unit banks, the authors point out the foliowing quantitative facts:

(a) On June 30, 1958, eight major bank holding company stocks sold for an average price of 10.5 times net operating earnings. Stocks of individual banks with assets of from $20 million to $50 million were quoted at various prices, some ranging from ratios of 7 or less times earnings, and a group of ten selected individual bank stocks had price-earnings ratios of 8.8.

(b) Dividend payout ratios were 53.1% for eight bank holding companies, 49.4% for all insured commercial banks, and 44.4% for country bank members of the Federal Reserve System in 1957.

(c) Stocks of smaller banks were quoted at substantial discounts from book value on June 30, 1958 in many instances, whereas the average ratio of price to book value per share for eight bank holding companies was 100.2%.

2. In a holding company system, the cost of capital to the parent company can be taken as roughly synonymous with the cost of capital to the members of the system. The tests cited above are standard tests for the determination of the ease with which capital can be attracted, indicating that the investor is willing to pay more per dollar of earnings for stock in a bank holding company than he is for stock in a small unit bank. Thus, it is easier for a holding company to attract capital than it is for an individual bank.

3. It may well be argued that where bank stock is held as an investment *per se*, rather than as the means of obtaining and retaining management positions, smaller unit banks are not competitive with other investment opportunities of the same, or less risk, whereas holding companies are. For instance, a ten year study of the common stock of nine independent telephone companies (*) shows the following comparable figures for the period 1948-1957:

(*) The nine companies included are: California Water & Telephone; Central Telephone: Lincoln Telephone & Telegraph; Northern Ohio Telephone; Peninsular Telephone; Rochester Telephone; Southwestern States Telephone; United Utilities; West Coast Telephone. The data was computed from **Moody's Public Utilities Manual** for the appropriate years. Average capitalization of these companies was approximately $58,700,000. The period 1947-1958 was selected to include both high and low prices for utility securities.

(a) The nine companies had an average price-earnings ratio of approximately 9.3 times during the period covered.

(b) The same companies had an average dividend payout ratio of 58.7%.

(c) Each telephone stock had market values which were substantially above book values.

4. The data set forth in paragraphs one and three of this appendix cannot be taken as indicating that a state statute prohibiting utility holding company investment in national banks would free additional capital for the individual unit banks of that state because (a) the flow of capital does not recognize state boundaries, and (b) even if it did, the unit banks could not compete, as investments *per se*, with other investments, such as the nine independent telephone companies. Thus, it can only be concluded, giving primary emphasis to the price-earnings ratios which represent the closest appraisal of the informed investor's opinion of the investment potentiality of a stock, that the bank holding company makes capital available to a national bank more cheaply and freely than it is to either the nine independent telephone companies or the unit banks. The converse is true of the relationship of unit banks and the nine telephone companies as investment opportunities.